



**Department of Veterans Affairs  
St. Paul Regional Loan Center  
Training Guide  
May 2005**



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This Training Guide is intended as a reference tool to be used in conjunction with the Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4 and was developed by the St. Paul Regional Loan Center. Please refer to the Lender's Handbook for clarification or additional information. It can be accessed at [http://www.warms.vba.va.gov/pam26\\_7.html](http://www.warms.vba.va.gov/pam26_7.html).

## **St. Paul Information and Web Sites**

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### **Address**

Department of Veterans Affairs  
Regional Loan Center (264)  
Bishop Henry Whipple Federal Building  
1 Federal Drive, Fort Snelling  
St. Paul, MN 55111-4050

**Phone Number: 1-800-827-0611/Option Selections:**

**#1** Construction and Valuation

**#2** Loan Production

**#3** Loan Administration

**#4** Release of Liability, Warranty Deed

**Fax Number:** (612)-970-5496 (Underwriters)

(612)-970-5635 (Indebtedness Forms to Finance)

### **E-Mail Addresses:**

[rlc335@vba.va.gov](mailto:rlc335@vba.va.gov) (St. Paul RLC)

[rlc/lp@vba.va.gov](mailto:rlc/lp@vba.va.gov) (Loan Production)

[vaappraisal.stpaul@vba.va.gov](mailto:vaappraisal.stpaul@vba.va.gov) (Construction & Valuation)

[rlctt@vba.va.gov](mailto:rlctt@vba.va.gov) (Training Issues)

### **Internet Addresses**

<http://www.homeloans.va.gov> (National Site)

<http://rio.towerauction.net/cgi-bin/vacert.cgi>  
(LA COE)

[www.warms.vba.va.gov/pam26\\_7.html](http://www.warms.vba.va.gov/pam26_7.html)  
(Lender's Handbook)

<http://www.vba.va.gov/ro/Roanoke/rlc/giloans.htm>  
(IRRRL Inquiry)

<http://www.vba.va.gov/rostpaul.htm> (St. Paul RLC)

<http://vip.vba.va.gov/> (Veterans Information Portal)  
(Due to security issues Hyperlink cannot be established.)

<http://www.va.gov/vaforms/> (forms)

[www.pay.gov/va](http://www.pay.gov/va) (FFPS)  
(Due to security issues Hyperlink cannot be established.)

## **Department of Veterans Affairs Home Loan Guaranty Benefits Summary**

### ***What Is A VA Guaranteed Loan?***

VA guaranteed loans are made by private lenders, such as banks, savings & loans, or mortgage companies to eligible veterans for the purchase of a home THAT MUST BE FOR THEIR OWN PERSONAL OCCUPANCY. To get a loan, a veteran must apply to a lender. If the loan is approved, VA will guaranty a portion of it to the lender. This guaranty protects the lender against loss up to the amount of guaranty and allows a veteran to obtain favorable financing terms. The Veterans Benefits Act of 2004 changed the maximum guaranty amount of \$60,000, for certain loans in excess of \$144,000, to an amount equal to 25 percent of the Freddie Mac conforming loan limit determined under section 305 (a) (2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, as adjusted for the year involved. To illustrate, the maximum guaranty for 2005 would be \$89,912. This is 25 percent of the 2005 Freddie Mac conforming loan limit for a single family residence of \$359,650. Under Freddie Mac's charter, maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands. This higher amount would also apply to VA loans in these areas.

### ***VA Loans Offer The Following Important Features:***

- Equal opportunity for all qualified veterans to obtain a VA loan.
- No down payment (unless required by the lender or the purchase price is more than the reasonable value of the property).
- Buyer informed of reasonable value.
- Negotiable interest rate.
- Ability to finance the VA funding fee (plus reduced funding fees depending on down payment, and exemptions for veterans receiving compensation).
- Closing costs are comparable with other financing types (and may be lower).
- No mortgage insurance premiums.
- An assumable mortgage.
- Right to prepay without penalty.
- For homes inspected by VA during construction, a warranty from the builder and assistance from VA to obtain cooperation of the builder.
- VA assistance to veteran borrowers in default due to temporary financial difficulty.

### ***VA Does Not Do The Following:***

- Guarantee that the home is free of defects. VA guarantees only the loan. It is the veteran's responsibility to assure that they are satisfied with the property being purchased. The VA appraisal is not intended to be an "inspection" of the property. A veteran should seek expert advice (a qualified residential inspection service), as necessary, BEFORE legally committing to a purchase agreement.
- If you have a home built, VA cannot compel the builder to correct construction defects although VA does have authority to suspend a builder from further participation in the home loan program.
- VA can't guarantee that a veteran is making a good investment.
- VA can't provide a veteran with legal services.

## **The Veterans Information Portal (VIP)**

The Veterans Information Portal (VIP) is using today's available technology to create a secure one-stop Veterans Benefits Administration (VBA) web-based portal. The goal being that VBA would be better able to support and serve our users by providing a user-friendly site. VIP can be found online to access TAS, ACE and WBLs at:

**<https://vip.vba.va.gov/>**

**(Due to security issues a Hyperlink cannot be established.)**

### ***Initial Registration:***

Passwords are sent to an individual e-mail account entered during registration. This password will allow one individual user to login. However, the system will then prompt the user to change his/her password to one that can be easily remembered using the required password criteria.

### ***Lost Username/Password:***

If you do not know your username and/or password, you may try to have a new password e-mailed to your e-mail address of record by selecting the LOST PASSWORD link on the portal home page. ***Please click this link only once.*** Processing may pause while the new password is generated and sent to the e-mail account you registered with. The LOST PASSWORD option asks for a current portal username or e-mail address the VA has on record. You will get a new password each time you click the link. Please keep in mind that the LOST PASSWORD function will NOT unlock an account and there are NO 15 minute grace periods.

### ***VIP Account Locked:***

If the login fails after 3 attempts with your password, your account may need to be unlocked. Please call 800-827-0611 ext 3716 or 5421; or e-mail [VIP@VBA.VA.GOV](mailto:VIP@VBA.VA.GOV) in order to have your account unlocked. Please make sure to include your username, contact information, and the last 4 digits of your SSN.

## **The Appraisal System (TAS)**

This is a centralized, Internet-based appraiser assignment system designed to increase the efficiency of processing veterans' loan applications. TAS can be found by accessing the Veterans Information Portal (please refer to page 2 for the internet address). Federal Law requires all appraisals for VA guaranteed loans to be completed by an appraiser on a rotational basis from a panel of approved fee appraisers.

TAS offers benefits to all users including ease of use, speed, accessibility, and expanded lender access to VA records. Most importantly, TAS allows automatic lenders who are authorized under the Lender Appraisal Processing Program (LAPP) to issue Notices of Value (NOVs) directly to VA's system. With the combination of E-Commerce Appraisals and TAS, LAPP lenders no longer have to send copies of NOVs and appraisals to VA at the time of issuance.

### ***Ordering a Case Number***

- Agents ordering appraisals under LAPP for a LAPP approved sponsor will need the sponsor's 10-digit lender ID number.
- The system is designed to generate a Request for Determination of Value.
- Click once on the ***submit*** button when you have completed the form and VA Form 26-1805 will appear on the screen. Scroll down to find the name, address and phone number of the appraiser. (Because the hour glass does not always appear, if you click twice on the submit button you will get an error message. Clicking the ***back*** button on your browser will get you back to your data entry screen, you will have to resubmit the data in order to obtain a VA Form 26-1805.)
- If for any reason you are uncertain of your success in getting an assignment, go under ***All Users*** function and search to see if you obtained a case number and appraiser or call Construction and Valuation for assistance at 800-827-0611 ext 5421.

### ***The Condominium/Planned Unit (PUD) and Builder (CPB) system***

The PUD and CPB system was created to assist VA registered lenders and builders as well as veterans in obtaining VA information about Condominiums and PUDS. A password is not required to access this system. The PUD and CPB system can be found at

<http://condopudbuilder.vba.va.gov/2.2/frames.html>.

### ***E-Appraisal***

E-Appraisals is the next advancement in VA's continuing process of improvement in appraisal delivery and customer service. Instead of e-mailing appraisals to the respective e-mail account for each local RLC and to each lender, under E-Appraisals, fee appraisers will now submit their appraisals to one centralized VA web site. This will enhance VA's ability to track and monitor all incoming appraisals. Additionally, E-Appraisal will interface with TAS and, upon receipt of an appraisal; TAS will show it as ***pending review***. With E-Appraisals lender SARs can immediately proceed to review the appraisal and issue the Notice of Value. SARs will no longer have to wait to receive an appraisal sent to them by the appraiser or lender agent.

## Determining Eligibility

### *Automated Certificate of Eligibility*

First lenders should attempt to obtain a COE through **The Automated Certificate of Eligibility (ACE)** program online. This system is an Internet based application with two functions, Automated Certificates of Eligibility and Verify Status of the Guaranty. The system can be accessed through the Veterans Information Portal (please refer to page 2 for internet address). Lenders input data, while a potential veteran-borrower is in the office or on the telephone, and receives an eligibility determination within seconds. This is an alternative to mailing VA Form 26-1880, Request for Determination of Eligibility for VA Home Loan Benefits, to the appropriate Eligibility Center.

ACE can't make all determinations but is helpful in many cases especially where the veteran is a first time user of the program. Other types of cases that cannot be processed through ACE at this time are:

- Persons whose service was or is in the Reserves/National Guard
- Persons who may have had prior VA loans(s) that went to foreclosure
- Persons who did not serve the minimum required length of service and were not discharged for an authorized exception
- Persons who were discharged under conditions other than honorable
- Persons for which VA has insufficient data to make the determination
- Persons seeking restoration of previously used entitlement

If eligibility cannot be established, the lender will get a *Refer* message saying the determination cannot be made. A *Refer* message only means that ACE cannot make the determination. It does not necessarily mean the veteran is not eligible.

The "traditional" Certificates of Eligibility are still valid; however, they aren't required if you obtain an ACE generated certificate. Simply print out the display and submit with the Modified Guaranty Submission to the St. Paul Regional Loan Center for guaranty. VA will use the authorization number on the certificate to confirm its authenticity.

### *Traditional Certificate of Eligibility*

If you are not able to obtain a Certificate of Eligibility via ACE, please send VA Form 26-1880, Request for Certificate of Eligibility for Home Loan Benefits, and evidence of service to the Los Angeles Eligibility Center.

Los Angeles Eligibility Center Contact Information:

#### **Mailing Address**

Los Angeles Eligibility Center  
PO Box 240097  
Los Angeles, CA 90024

#### **Overnight Address**

Dept of Veterans Affairs  
Los Angeles Eligibility Center (344/263)  
11000 Wilshire Blvd. – 3<sup>rd</sup> floor  
Los Angeles, CA 90024

Phone Number: (310) 235-6199 option #1 or (888) 487-1970

Internet sites: <http://rio.towerauction.net/cgi-bin/vacert.cgi>

E-mail Address: [VAVBALAN/LGYELI@VBA.VA.GOV](mailto:VAVBALAN/LGYELI@VBA.VA.GOV)

### **Evidence of Service Requirements:**

#### **❖ *Veterans Still on Active Duty:***

Statement of Service signed and dated by their Commanding Officer on official letterhead and include:

- Service Member's Name
- Date Of Birth
- Social Security Number And/Or Service Number
- Enlistment Date
- The Fact That You Are Still On Active Duty
- Contain The Phrase No Time Lost (If Applicable), Or List The Time Lost.
- If They Are In The Reserves Or National Guard, Indicate If You Are Serving Under The Authority Of Title 10 Or Title 32

#### **❖ *Discharged Veterans (Regular Military):***

Please provide Certificate of Release or Discharge From Active Duty, DD 214, Member Copy 4. To obtain a DD 214 please contact:

National Personnel Records Center  
Military Personnel Records  
9700 Page Avenue  
St. Louis, MO 63132-5100

<http://www.archives.gov/> (web site)

#### **❖ *Current Reserve/Guard Members***

Statement of Service signed and dated by their Commanding Officer on official letterhead and include:

- Veteran's Full Name
- Social Security Number (SSN)
- Entry Date Of Applicant's Reserve/Guard Duty

Note: The statement must clearly indicate that the applicant is an "active" reservist and not in a control group (inactive status).

#### **❖ *Discharged Reserves/Guard Members:***

Report of Separation and Record of Service, NGB Form 22 or a *points statement*.

To obtain copies of *point statements* or other documentation that reflects 6 years of participation with evidence of honorable discharge please contact the following:

<b>Branch</b>	<b>Type of Form and Military Branch Homepage</b>	<b>Telephone</b>
Air Force/ Air National Guard	NGB 22, Report of Separation and Record of Service AF 526, Point Summary Sheet	(800) 525-0102 ext. 71388
Army Reserve	DARP Fm 249-2E or ARPC Fm 606, Chronological Statement of Retirement Points <a href="http://www4.army.mil/USAR/contact/index.php">http://www4.army.mil/USAR/contact/index.php</a>	(314) 592-0123
Navy Reserve	NRPC 1070-124, Annual Retirement Point Record <a href="https://www.nrpcweb.nola.navy.mil/index_n3_faqs.asp">https://www.nrpcweb.nola.navy.mil/index_n3_faqs.asp</a>	(866) 250-4778
USMC Reserve	NAVMC 798, Reserve Retirement Credit Report <a href="http://www.mfr.usmc.mil/">http://www.mfr.usmc.mil/</a>	(800) 268-3710
Coast Guard Reserve	CG 4175, USCG Reserve Retirement Points Statement <a href="http://www.uscg.mil/hq/reserve/reshmpg.html">http://www.uscg.mil/hq/reserve/reshmpg.html</a>	(800) 268-3710



## **VA Loans**

### ***Eligible Loan Purposes***

Eligible veterans and service personnel may obtain loans for the following purposes:

- To buy a home up to four family units for one veteran, including townhouses or condominium unit in a VA approved project
- To build a home
- To simultaneously purchase and improve a home
- To improve a home by installing energy-related features such as solar or heating/cooling systems, water heaters, insulation, weather-stripping/caulking, storm windows/doors or other energy efficient improvements approved by the lender and VA
- To refinance an existing home loan
  - cash-out refinance
  - reduce the interest rate (Interest Rate Reduction Refinance)
  - convert an adjustable rate mortgage (ARM) to a fixed rate mortgage
- To buy a manufactured home and/or lot

### ***Requirements For VA Loan Approval***

To obtain a VA loan, the law requires that:

- The applicant must be an eligible veteran who has available entitlement;
- The loan must be for an eligible purpose;
- The veteran must occupy the property as a home within a reasonable period after closing the loan;
- The veteran must be a satisfactory credit risk; and
- The income of the veteran and spouse, if any, must be shown to be stable and sufficient to meet the mortgage payments, cover the cost of owning a home, take care of other obligations and expenses and have enough left over for family support.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 3

### ***Loan Types Requiring Prior Approval***

All lenders, whether or not they have automatic authority, must submit the following types of loans to VA for prior approval:

- Joint loans
- Loans to veterans in receipt of VA non service-connected pension
- Loans to veterans rated incompetent by VA
- Interest Rate Reduction Refinancing Loans (IRRRLS) made to refinance a delinquent VA loan
- Manufactured home loans (except when the manufactured home is permanently affixed to a lot and considered real estate under State law) unless the lender has been separately approved for this purpose
- Cooperative loans (Contact VA to discuss)
- Unsecured loans, or loans secured by less than a first lien

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 5

### ***Forms Required For Prior Approval***

The following loan documentation, in sequence, must be submitted under the prior approval procedure:

1. Lender's cover letter (if used);
2. VA Form 26-8320, Certificate of Eligibility, or Automated Certificate of Eligibility;
3. URLA (Uniform Residential Loan Application) with revised VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application; (submission requirement of Debt Questionnaire met by submission of URLA, submission requirement of Federal Collection Policy Notice met by submission of the HUD/VA addendum to the URLA)
4. Interest Rate and Discount Disclosure Statement;
5. VA Form 26-0592, Counseling Checklist for Military Home Buyers (if applicable);
6. VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet (if applicable);
7. VA Form 26-8937, Verification of VA Benefit Related Indebtedness (if applicable);
8. VA Form 26-6393, Loan Analysis;
9. All original credit reports obtained in connection with the loan and any related documentation;
10. VA Form 26-8497a, Request for Verification of Deposit, and other related documents;
11. VA Form 26-8497, Request for Verification of Employment (or equivalent), verifications of income (for example, pay stubs, tax returns, see par. 5.12);
12. Purchase/Earnest money contract (which includes the Escape Clause, please refer to page 37 of the Training Guide for clarification);
13. LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property,  
VA Form 26-1843a, Master Certificate of Reasonable Value, if applicable, with any applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer generated form);
14. The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR), including all addendum, photographs, and any documents revising or correcting the fee appraiser's original (URAR). (Note: the URAR, etc. is not required when VA Form 26-1843a MCRV, is submitted);
15. Reserve/National Guard Certification Statement; and
16. Any other necessary documents.

## ***Joint Loans***

A joint loan generally refers to a loan for which:

- A veteran and another person(s) are liable.
- The security is owned by the veteran and the other obligor(s).

A joint loan is made to:

- The veteran and one or more non veterans (not spouse).
- The veteran and one or more veterans (not spouse) who will not be using their entitlement.
- The veteran and one or more other veterans (not spouse), all of who will use their entitlement.

A loan to a veteran and fiancé/fiancée who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage) and not a joint loan.

Any joint loan for which title to the property will be held by the veteran and any person other than the veteran's spouse must be submitted for prior approval.

Any loan for which title to the property will be held by the veteran and the veteran's spouse, whether or not the spouse also uses entitlement, may be closed automatically by a lender with automatic authority.

Veteran/Non veteran Joint Loan - Guaranty is limited to that portion of the loan allocable to the veteran's interest in the property.

Two Veteran Joint Loan - As with a non-joint loan, potential maximum guaranty on a joint loan is calculated based on the total loan amount and cannot exceed \$89,912 (1/1/2005-12/31/2005), even if the available entitlement of the veterans involved adds up to a greater amount.

### **Occupancy**

- Any person who uses entitlement on a joint loan must certify intent to personally occupy the property as his or her home.
- Any borrower on a joint loan who does not use entitlement for the loan (such as a non veteran), does not have to intend to occupy the property.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 5

### ***Maximum Guaranty on VA Loans***

#### **Maximum Guaranty Table**

The maximum guaranty on a VA loan is the lesser of

- the veteran's available entitlement (plus \$53,912 for purchase or construction loans or IRRRLs greater than \$144,000 between 1/1/2005 –12/31/2005), or
- the maximum potential guaranty amount indicated below.

<b>Loan Amount</b>	<b>Loan Type(s)</b>	<b>Maximum Potential Guaranty</b>	<b>Special Provisions</b>
Up to \$45,000	All	50% of the loan amount	Minimum guaranty of 25% on IRRRLs
\$45,001 to \$56,250	All	\$22,500	Minimum guaranty of 25% on IRRRLs
\$56,251 to \$144,000	All	40% of the loan amount, with a maximum of \$36,000	Minimum guaranty of 25% on IRRRLs
Greater than \$144,000	Must be for: <ul style="list-style-type: none"><li>• Purchase or construction of a home, or</li><li>• Purchase of a condominium unit, or</li><li>• Refinancing with an IRRRL</li></ul>	25% of the loan amount, with a maximum of \$89,912 (1/1/2005-12/31/2005)	Cash-out refinances have a maximum guaranty of \$36,000 Minimum guaranty of 25% on IRRRLs
Any	Joint Loans		See Section 7.01
	Energy Efficient Mortgages		See Section 7.03
	Construction loans on which construction is incomplete		See Section 7.02
	Supplemental loans		See Section 7.05

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 3

### ***Energy Efficient Mortgages (EEM)***

Energy Efficient Mortgage's (EEM) are loans for the acquisition of an existing dwelling and the cost of making energy improvements to the dwelling, **OR** refinancing an existing VA loan with an IRRRL, or energy efficient improvements to a dwelling owned and occupied by the veteran.

The mortgage may be increased by:

- Up to \$3,000 based solely on the documented costs of the energy improvements
- OR**
- Up to \$6,000 provided the increase in monthly mortgage payment does not exceed the likely reduction in monthly utility costs
- OR**
- More than \$6,000 subject to a value determination by VA.

These features may be added with the purchase of an existing dwelling or by refinancing a home owned and occupied by the veteran. Cash-Out Refinancing Loans maximum loan amount can't exceed 90 percent of the appraised value plus the cost of any energy efficiency improvements (up to \$6,000), plus the VA funding fee.

If the improvements are not completed before closing, you may establish an escrow account and close the loan. A formal escrow is not required. Only the amount needed to complete the improvements must be withheld. Generally the improvements should be completed within six months from the date of loan closing.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 7

### ***Cash-Out Refinancing Loans***

The loan limit is 90% of the amount of the Notice of Value, plus the funding fee, plus the cost of any energy efficient improvements up to \$6,000. **The maximum guaranty is \$36,000.** The loan must pay off an existing lien(s) of record. Itemization of the debts paid off by loan proceeds is required. The veteran can receive cash proceeds from the loan for any purpose acceptable to the lender.

### ***Other Refinancing Loans***

These consist of loans to refinance:

- construction loans
- installment land sales contracts
- loans assumed by veterans at interest rates higher than that for the proposed refinance

These loans are like cash-out refinances in all respects **except:**

- the loan amount is not limited to 90%
- these loans may not exceed the **lesser** of  
the VA reasonable value

**or**

the sum of the outstanding balance of the loan to be refinanced plus allowable closing costs and discount points.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 6

### ***Interest Rate Reduction Refinancing Loans***

- An Interest Rate Reduction Refinancing Loan (IRRRL) can be done only when the veteran already has his or her entitlement used for a VA loan on the property to be refinanced. In other words, it must be a VA to VA refinance reusing the veteran's entitlement.
- Remember to order a new VA case number through The Appraisal System (TAS). On the requester menu, select "generate loan number only."
- Lender's use the site <http://www.vba.va.gov/ro/Roanoke/rlc/giloans.htm> to submit IRRRL Status Inquiries in lieu of a Certificate of Eligibility for IRRRLs. This is an automated service that will process the request within 24 hours of submission, 7 days a week. This service can be used for all VA loans, irrespective of the property location, or VA office of jurisdiction. To use this service lenders will need the first six digits of their VA Lender Identification Number and an e-mail address. On-line instructions are available at the above web site.
- The occupancy requirement for an IRRRL is different from the occupancy requirement for other VA loans. The veteran, or spouse of an active duty member, must certify that he or she previously occupied the property as his or her home. This satisfies the occupancy requirement by certifying prior occupancy.
- Always use VA Form 26-8923, IRRRL Worksheet, to calculate the maximum loan amount. Basically, it is the existing VA loan balance plus allowable fees and charges, including not more than 2 discount points, plus the cost of any energy efficient improvements, plus the funding fee.
- No credit information or underwriting is required unless the loan to be refinanced is 30 days or more past due or the monthly payment (PITI) will increase 20 percent or more. A borrower with a recent Chapter 13 bankruptcy may need approval of the trustee for the new loan.
- An interest rate reduction refinance may be done by including all costs in the new loan or by setting the interest rate on the new loan high enough to enable the lender to pay all loan closing costs. Remember, the principal and interest payment must be less than the principal and interest payment of the VA loan being refinanced unless an adjustable rate mortgage is being refinanced by a fixed rate VA IRRRL, the term of the IRRRL is shorter than the term of the previous VA guaranteed loan or energy efficient improvements are included in the IRRRL.
- No lien other than the existing VA loan may be paid from the proceeds of the IRRRL. It may be necessary that the holder of the second lien subordinate that lien.
- The guaranty on an IRRRL will always be at least 25 percent.
- Any lender, including those without authority to process other VA loans on an automatic basis, may process IRRRLs on an automatic basis as long as the existing loan is not in default.
- If the existing loan is delinquent the IRRRL must be submitted for prior approval.
- Maximum term is the existing term plus 10 years not to exceed 30 years & 32 days.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 6

### ***Forms Required for Interest Rate Reduction Refinance Loans***

The following loan documentation, in sequence, must be submitted under the IRRRL procedure:

1. Lender's cover letter (if used);
2. VA Form 26-0285, VA Transmittal List;
3. VA Form 26-0286, VA Loan Summary Sheet;
4. VA Form 26-8320, Certificate of Eligibility; ACE generated Certificate, or Loan Status Inquiry;
5. Print Out of the Funding Fee Receipt issued through the on-line Funding Fee Payment System; VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt; or
6. Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments, interest rate, term of the loan, and must also include a ***recoup statement***. The statement must show the interest rate and monthly payments (P & I) for the new loan versus that for the old loan. (If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment that exceeds the previous payment by 20 percent or more.), the recoup statement must identify the total of ***ALL*** closing costs (both those included in the loan and those paid outside of closing). It should read as follows: your monthly payment decreased by \$50; you paid \$5,000 in closing costs it will take 100 months to recoup the closing costs (\$5,000 divided by \$50);
7. VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet. (Include CAIVRS number);
8. VA Form 26-1820, Report and Certification of Loan Disbursement;
9. VA Form 26-8937, Verification of VA Benefit-Related Indebtedness (if applicable);
10. HUD-1, Settlement Statement;
11. VA Form 26-0503, Federal Collection Policy Notice;
12. Lender's certification that the prior loan was current (not 30 days or more past due) at the time of loan closing;
13. If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reason(s) for late reporting and certifies that the loan is current;
14. Documentation of the cost of energy efficiency improvements included in the loan. For cash reimbursement to the veteran, the improvements must have been completed within the 90 days immediately preceding the date of the loan;
15. ARM Disclosure (if applicable); and
16. Any other necessary documents.



***Who can an IRRRL be made to?***

Generally, the party(ies) obligated on the original loan must be the same on the new loan (and the veteran must still own the property). The lender should contact VA regarding a proposed IRRRL involving a change in obligors unless the acceptability of the IRRRL is clear based on information and examples in this section. The table below provides some examples.

<b>Parties Obligated on Old VA Loan</b>	<b>Parties to be Obligated on New IRRRL</b>	<b>Is IRRRL Possible?</b>
Unmarried veteran	Veteran and new spouse	Yes
Veteran and spouse	Divorced veteran alone	Yes
Veteran and spouse	Veteran and different spouse	Yes
Veteran alone	Difference veteran who has substituted entitlement	Yes
Veteran and spouse	Spouse alone (veteran died)	Yes
Veteran and nonveteran joint loan obligors	Veteran alone	Yes
Veteran and spouse	Divorced spouse alone	No
Unmarried veteran	Spouse alone (veteran died)	No
Veteran and spouse	Different spouse alone (veteran died)	No
Veteran and nonveteran joint loan obligors	Nonveteran alone	No

Reminder: A Certificate of Eligibility is NOT necessary for Interest Rate Reduction Refinance of existing VA loans. Lender's use the web site:

<http://www.vba.va.gov/ro/Roanoke/rlc/giloans.htm>

to submit Loan Status Inquiries in lieu of a Certificate of Eligibility for IRRRLs. This is an automated service that will process the request within 24 hours of submission, 7 days a week. This service can be used for all VA loans, irrespective of the property location, or VA office of jurisdiction.

## ***Refinance Comparison***

Full List on pages 6-20 & 21 of VA Lender's Handbook, Revised, Change 4

	<b>Regular Cash-Out</b>	<b>IRRRL Rate Reduction</b>
<b>Statutory Authority</b>	38 USC 3710 (a) (5)	38 USC 3710 (a) (8)
<b>Guaranty Entitlement Required</b>	Yes	No
<b>Cash to Veteran</b>	Yes	No
<b>Loan Limit</b>	90 percent of NOV plus the cost of any energy efficiency improvements plus the VA funding fee	VA loan balance plus allowable closing costs and funding fee (plus up to \$6,000 for energy efficient improvements)
<b>Must Veteran Own Property</b>	Yes	Yes
<b>Must Veteran Occupy Property</b>	Yes	No (must have once occupied)
<b>Maximum Loan Term</b>	30 years + 32 days	Existing VA loan term plus 10 years not to exceed 30 years and 32 days
<b>Maximum Interest</b>	Negotiated Rate	Rate must be lower than rate on present VA loan (unless refinancing ARM to fixed rate)
<b>Lien of Record Required</b>	Yes	Yes
<b>OK to Refinance Other Liens</b>	Yes	No
<b>Appraisal Required</b>	Yes	No
<b>Credit Package Required</b>	Yes	No (unless delinquent)
<b>OK for Automatic Processing</b>	Yes, Automatic lenders	Yes, all lenders <b>unless</b> existing VA loan is delinquent

## Adjustable Rate Mortgages (ARMs) and HYBRID ARMs

The Veterans Benefits Act of 2004 gave VA authority to guarantee “traditional” Adjustable Rate Mortgages (ARMs) in a manner similar to that by which HUD insures adjustable rate mortgages under section 251 of the National Housing Act. The legislation provides authority to VA for Adjustable Rate Mortgages through September 30, 2008. The law also extended VA’s authority to guarantee Hybrid ARM loans to September 30, 2008.

<b>Type of Loan</b>	<b>Initial Period Rate Fixed (Yrs)</b>	<b>Annual Change</b>	<b>Maximum Change</b>
<i>Hybrid ARM -on or before 12-9-04</i>	Minimum 3 years	+/- 1%	+ 5%
<i>Hybrid ARM -effective 12-10-04</i>	Less than 5 years	+/- 1%	+ 5%
<i>Hybrid ARM -effective 12-10-04</i>	5 years or more	<b>First Change +/- 2% Subsequent Changes +/- 1%</b>	+ 6%
<i>ARM -effective 12-10-04</i>	Minimum 1 year & underwritten 1% above the initial rate	+/- 1%	+ 5%

## *Income*

### Standard Documentation

- ❖ Income claimed by an applicant that is not or cannot be verified should not be given consideration.
- ❖ A minimum of two years employment should be verified (including past employers if needed).
- ❖ Verifications of employment dated within 120 days of the note, 180 days for new construction.
- ❖ An original or certified copy of the applicant's pay stub, when furnished by the employer, must be provided.
- ❖ The employment verification should be compared with the pay stub for consistency.

VA permits lenders to use faxed and Internet downloaded documents for income/employment or assets verifications.

- ❖ Faxed documents: Must provide same information as standard VOE or VOD. Clearly identify employer or depository's name and source of information. Lenders are responsible to ensure authenticity of the document by examining banner information provided at the top of each page of the fax, review for errors such as incorrect area codes, unreadable names, income, assets or debts not adequately completed on the form, and the form must contain name and telephone number of the person who can verify the faxed information.
- ❖ Internet downloads: Must show the employer or depository's name source of information. Downloaded pages should show the Uniform Resource Locator (URL) and the date and time printed. Lenders are responsible for ensuring the document is valid by reviewing information contained on headers/footers, banner portion of Web Pages(s).

### Alternative Documentation

- ❖ Generally, applicants should be with the employer for 12 months or have related experience.
- ❖ Telephone verifications should be obtained and similar in content to the employment verification form. Phone verifications should show the person contacted, their position, phone number and date contacted.
- ❖ Furnish the original pay stub(s) covering the most recent 30 day period together with W-2 forms for the previous 2 years.
- ❖ If documents are questionable in authenticity or consistency, or if the employer is unwilling to provide a verbal verification, then a standard verification of employment form is required.
- ❖ Alternative documentation can be used in conjunction with verification of employment forms to meet the two-year period requirement.
- ❖ Full verifications of employment through "The Work Number for Everyone," a service of the TALX Corporation. (No pay stub is needed with the TALX verification.)
- ❖ Approved automated underwriting systems are: Loan Prospector, Desktop Underwriter, pmiAURA, Countrywide CLUES, and Chase Zippy.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 4

### ***Reservists, National Guard & Active Duty Applicants***

- A certified copy or original Leave and Earnings Statement (LES) is required to verify military employment. This exhibit must be no more than 120 days old, 180 days for new construction and substitutes for the VOE.
- Veterans who have less than one-year remaining time in service (ETS date) must certify that they are going to re-enlist, along with their commander certifying they are eligible to re-enlist. If the applicant does not plan to continue with the military, he/she must provide a firm job commitment or contract from the new employer verifying the job position, rate of pay, starting date, hours scheduled per week, and probability of continued employment.
- The continuation of military pay/allowances must be determined to count as income. If the duration of these pay/allowances cannot be determined then the pay/allowances will only be used to offset intermediate debts of 24 months or less. It is the lender's responsibility to separate allowances into taxable and tax-free categories.
- VA Requires certification of the borrower's status relative to membership in the reserves or National Guard. Please refer to page 37 for the Reserve/National Guard Certification.

**NOTE\*\*** A LES that shows zeroes or if it shows "Indefinite" in the field that normally reflects the ending date of obligated service typically means the person is an officer, and not necessarily subject to a specific term of service (i.e. 2 years, 4 years, etc.) Lenders should not assume that no documentation is needed when all zeroes appear on the LES. Rather the lender should make every effort to obtain a copy of orders per the guidelines noted in the Lender's Handbook. However, if unable to, or if the orders, once obtained, are not clear, then the lenders may as an alternative obtain a signed statement from the borrower. The statement should indicate that he or she has no intention of leaving active duty within the next 12 months. The statement should also note that he or she has no knowledge of any impending action that may result in his or her departure from active duty.

#### Useful Military Web Sites:

<http://www.dod.mil/dfas/money/milpay/pav/paytable2005-rev1.pdf>

Complete Military Pay Information

<http://www.dod.mil/dfas/money/milpay/>

Complete Active Duty and Reserve Monthly Drill Pay Tables (including Special Pay, BAS, and BAHII)

[www.dtic.mil/perdiem/bahform.html](http://www.dtic.mil/perdiem/bahform.html)

(Due to security issues a Hyperlink cannot be established.)

Complete Basic Allowance for Housing Information

[www.dod.mil/militarypav/pav/bas/index.html](http://www.dod.mil/militarypav/pav/bas/index.html)

Complete Basic Allowance for Subsistence Information

### ***Self-employment Income***

- Income from self-employment may be used when the applicant has been self-employed for at least 2 years. If the applicant has related experience and/or extensive specialized training, consideration may be given after one year.
- Copies of the past two years business **and/or** individual tax returns must be provided.
- The current year-to-date profit and loss statement and balance sheet are required. These exhibits can be prepared by the business or the veteran, if adequate information is provided. If discrepancies exist, the underwriter may still request financials be prepared by an accountant.
- Normal business expenses that can be “added-back” to the net profit or bottom-line figures include depreciation, business interest, and amortization of organizational fees (corporations).
- Business debts listing the name of a Sole-Proprietor on a Schedule C must be counted against the veteran on the loan analysis. The same applies to partnerships filed on IRS Form 1065. Only corporate debts are exempt from the veteran’s loan analysis.
- On partnerships and corporations, furnish a list of the primary owners and their percentage in the business. This can usually be found on the K-1 Forms for partnerships and sub-chapter S corporations or on the 1120 Form, Schedule E for standard corporations.
- Taxable income listed on the bottom of a corporate tax return (IRS Form 1120) may be divided by the veteran’s percentage of ownership and then used as additional income (subject to tax).

### ***Commission Income***

When all or a major portion of an applicant’s income is from commissions, a verification exhibit is needed. It must show the year-to-date commissions, the basis for computing commission, and how frequently commissions are paid to the applicant.

- Generally commission income can be considered stable after the applicant has received it for **two** years. Commissions can be considered after **one** year, if the applicant has prior related experience or extensive specialized training. Income should be averaged over a 12 to 24 month period.
- The prior two years income tax returns (additional periods if needed) must be provided with W-2s and 1099-MISC Forms. These individual returns must be complete with all schedules, signatures and dates included.
- Commission income received for less than **one** year can rarely be counted. To conclude the stability of “short-term” commissions, the lender would be required to do an in-depth development and verify stability.

## ***Rental Income***

**Multi-Family Housing** - If the veteran is purchasing or renting out multi-family housing, the documentation required would include two years tax returns to verify prior landlord experience, copies of leases (if available), and evidence of cash reserves equaling six months PITI. All of the conditions must be met to include rental funds in income.

- The amount of rental income used on existing units would be based on seventy-five percent of the verified prior rent, unless a higher percentage can be documented.
- If the units are proposed property, then VA would require a letter from the appraiser stating the “fair rental value” and a vacancy/operating cost reduction of that rental figure (a 25% reduction would be acceptable.)
- **Rental of existing property** - Rental of an existing single-family property may be used to “off-set” the mortgage payment if there is a positive cash-flow, and there is no indication the property will be difficult to rent. A copy of the lease must be furnished (if available) and it is the underwriter’s responsibility to be familiar with the local rental market. On “off-setting” the mortgage payment, the debt should still be listed on the loan analysis, but shown as a “rental offset.”
- If the existing single-family property is located in a weak rental market or has a negative cash flow, the rental income and expenses must be listed separately on the loan analysis. A copy of the lease agreement should be obtained, if available.
- **Other Rental Property** - If the applicant has other rental property, the same conditions apply as in multi-family housing with the exception of cash reserves equaling three months PITI instead of six. The strength of the local rental market should be evaluated to determine the property will not be difficult to rent; and depreciation & interest may be added-back if tax returns are used to determine effective income. Without prior rental experience, it is unlikely rental income can be used.

### ***Stability & Use of Income***

- After income has been verified, the applicant must generally be employed 12 months or longer to count the income. Related training or experience may be substituted to satisfy this 12-month requirement.
- Generally, 2<sup>nd</sup> job income should only be used after the applicant has 24 months experience of working two jobs. The ability to withstand the physical and emotional stress of working two jobs must be demonstrated before income can be included. There may be special situations that allow you to drop below the 2-year requirement.
- Generally, income from *overtime or part-time work* is not considered reliable unless the applicant has received this income for 2 years. However, *overtime* indicated by the employer as “likely to continue” can be used after 1 year. Overtime and part-time earnings that have been received for at least 1 year can always be used to off-set intermediate debts with less than 24 months remaining.
- Seasonal income may be used under special circumstances. It is important to document the past history and the likelihood it will continue.
- Temporary income such as VA educational allowances and unemployment compensation do not represent stable and reliable income and as a general rule, are not to be considered as income.
- Income from Worker’s Compensation, Foster Care, Public Assistance, Social Security, Alimony, and Child Support may be considered if they have been verified as consistently paid and are likely to continue. Public assistance programs and Social Security must continue for a minimum of 3 years from the date of closing to be counted.



## **Credit**

### ***General Rule***

A borrower with no derogatory references within the last 12 months can generally be considered to have acceptable credit. Exceptions are:

- Outstanding judgments
- Unresolved Federal debts

### ***Judgments***

A loan cannot be approved with an unpaid judgment, unless the veteran is on acceptable repayment plan with an acceptable payment history.

### ***Federal Debts***

Must be paid in full, in non-collectible status, or on a repayment plan.

### ***No Credit***

Lack of references is not a reason for disapproval. Obtain references from non-traditional sources of credit.

### ***Collection Accounts***

Payment of collection accounts at or near the time of loan application does not affect creditworthiness of the borrower. A borrower with an unacceptable credit history does not become acceptable simply by paying collection accounts. Conversely, a borrower with an overall favorable history might be considered acceptable with an isolated unpaid collection.

### ***Consumer Credit Counseling***

If entered before delinquency, a positive or neutral factor. If entered after delinquency, need 12 months of acceptable history and the approval of counselor.

### ***Bankruptcy***

Chapter 13: Need 12 months satisfactory payment history and approval of the court.

Chapter 7:

- Due to self employment and borrower subsequently obtains a permanent position, no derogatory credit prior to self employment or after bankruptcy and no misconduct; no time period required;
- Due to circumstances beyond borrower's control, 12 months with no derogatory credit and documentation of circumstances.
- Other situations require two years with no derogatory credit.

### ***Foreclosures***

Guidelines for bankruptcies filed under Chapter 7, straight liquidation are followed. Prior VA Loans: Sufficient entitlement and no unresolved debt to government.

### ***Divorce Situations***

Disregard delinquent payments made after assignment of responsibility to ex-spouse.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 4

## **Underwriting**

### ***Debts and Obligations***

Debts and obligations of the applicant must be rated and a credit report must be obtained. When a pay stub or leave-and-earnings statement indicates an allotment, the lender must investigate the nature of the allotment and determine if it is related to a debt.

Include written explanation for any obligation that is not rated. All credit reports and verifications must be no more than 120 days old or 180 days for new construction.

ECOA prohibits requests for or consideration of, credit information on a spouse who will not be contractually obligated on the loan except:

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states (If the property is located in a community property state consider the spouse's credit information whether or not the spouse will be personally liable on the note and whether or not the applicant or spouse chooses to have income considered.)

Deduct significant debts and obligations from total effective income when determining ability to meet mortgage payments. Significant debts and obligations include:

- debts and obligations with a remaining term of 10 months or more (long-term) accounts with a term less than 10 months that require payments so large as to cause a severe impact on the family's resources for any period of time.

### ***Assets***

Applicant or spouse must have sufficient cash to cover:

- closing costs or points which are their responsibility and are not financed in the loan (points can only be rolled into the loan in the case of refinancing)
- the down payment, if a Graduated Mortgage, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA

VA does not require additional cash to cover a certain number of mortgage payments.

Liquid assets must be verified to the extent that are needed to close the loan.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 4

***Table of Residual Income by Region***

**For loan amounts of \$79,999 and below**

<b>Family Size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7			

**For loan amounts of \$80,000 and above**

<b>Family Size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7			

For loan applications in which either the borrower or the spouse is an active-duty service person, the residual income figures will be reduced by a minimum of 5 percent if there is a clear indication that the borrower or spouse will continue to receive the benefits resulting from the use of nearby military-based facilities. This reduction may also be applied to retired military applicants when the property is located reasonably near a military base or installation. (This reduction applies to both of the above tables.)

**Key to Geographic Regions Used in the Residual Income Tables**

<b>Northeast</b>	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
<b>Midwest</b>	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
<b>South</b>	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
<b>West</b>	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
	Wyoming		

### ***VA Income Ratio***

The ratio is determined by taking the sum of PITI, homeowners' and other assessments (items 15, 16, 17, 18 and 21 from the loan analysis) and obligations to be deducted from income (item 41 from the loan analysis) divided by the total of gross salary or earnings (item 32 from the loan analysis) and other compensation or net income (item 39 from the loan analysis).

### ***Maintenance and Utility Costs***

**Remember:** Calculate maintenance and utility costs using 14 cents per square foot (above grade). For example, a 1500 square foot home would **have** a combined maintenance and utility cost of \$210 (1500 sq. ft. X .14 = \$210)

### ***Compensating Factors***

- Excellent long-term credit
- Minimal consumer debt
- Significant liquid assets
- Little or no increase in shelter expense
- Satisfactory home ownership experience
- Low debt-to-income ratio
- Tax benefit of home ownership
- Conservative use of consumer credit
- Long-term employment
- Down payment
- Military benefits
- High residual income
- Tax credits for child care
- Equity in refinancing loans

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 4

### ***Closing Summary***

The veteran can pay a maximum of:

- reasonable and customary amounts for any or all of the ***“Itemized Fees and Charges”*** designated by the VA *plus*
- a 1% flat charge by the lender, *plus*
- reasonable discount points.

Some special provisions apply to construction, alteration, improvement and repair loans.

### ***Itemized Fees and Charges:***

<b>Charge</b>	<b>Description</b>
Appraisal and Compliance Inspections	The veteran can pay the fee of a VA appraiser and VA compliance inspectors. The veteran can pay for a second appraisal if they are requesting reconsideration of value. Veteran cannot pay for an appraisal requested by the lender or seller for reconsideration of value. The veteran cannot pay for appraisals requested by parties other than the veteran or lender.
Recording Fees	The veteran can pay for recording fees and recording taxes or other charges incident to recordation.
Credit Report	The veteran can pay for the credit report obtained by the lender. On Automated Underwriting System cases, the veteran may pay the evaluation fee of \$50 in lieu of the charge for a credit report. For “Refer” cases, the veteran may also pay the charge for a merged credit report, if required.
Prepaid Items	The veteran can pay that portion of taxes, assessments, and similar items for the current year chargeable to the borrower and the initial deposit for the tax and insurance account.
Hazard Insurance	The veteran can pay the required hazard insurance premium. This includes flood insurance, if required.
Flood Zone Determination	The veteran can pay the actual amount charged for a determination of whether a property is in a special flood hazard area, if made by a third party who guarantees the accuracy of the determination. <ul style="list-style-type: none"><li>• The veteran can pay a charge for a life-of-the-loan flood determination service purchased at the time of loan origination.</li><li>• A fee may <b>not</b> be charged for a flood zone determination made by the lender or a VA appraiser.</li></ul>
Survey	The veteran can pay a charge for a survey, if required by the lender or veteran. Any charge for a survey in connection with a condominium loan must have the prior approval of VA.
Title Examination and Title Insurance	The veteran may pay a fee for title examination and title insurance, if any. If the lender decides that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the veteran.
Special Mailing Fees for Refinancing Loans	For refinancing loans only, the veteran can pay charges for Federal Express, Express Mail, or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling.
VA Funding Fee	Unless exempt from the fee, each veteran must pay a funding fee to VA.
Other Fees Authorized by VA	Additional fees attributable to local variances may be charged to the veteran <b>only</b> if specifically authorized by VA. The lender may request VA to approve such a fee if it is <ul style="list-style-type: none"><li>• normally paid by the borrower in a particular jurisdiction, and</li><li>• considered reasonable and customary in the jurisdiction.</li></ul>

In addition to the “*Itemized Fees and Charges*,” the lender may charge the veteran a flat charge not to exceed 1% of the loan amount.

- Calculate the 1% on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds.
- For IRRRLs, use VA Form 26-8923, IRRRL Worksheet, for the calculation.

The lender’s flat charge is intended to cover all of the lender’s costs and services which are not reimbursable as “*Itemized Fees and Charges*.”

The following list provides examples of items that

*cannot be charged to the veteran if the 1% flat fee is charged:*

- lender’s appraisals
- lender’s inspections, except in construction loan cases
- loan closing or settlement fees
- document preparation fees
- preparing loan papers or conveyancing fees
- attorney’s services other than for title work
- photographs
- interest rate lock-in fees
- postage and other mailing charges, stationery, telephone calls, and other overhead
- amortization schedules, pass books, and membership or entrance fees
- escrow fees or charges
- notary fees
- commitment fees or marketing fees of any secondary purchaser of the mortgage and preparation and recording of assignment of mortgage to such purchaser
- trustee’s fees or charges
- loan application or processing fees
- fees for preparation of truth-in-lending disclosure statement
- fees charged by loan brokers, finders or other third parties whether affiliated with the lender or not, and
- tax service fees

**NOTE: The Pest Inspection is an unallowable charge to the borrower if it is a requirement of the NOV.** If the NOV does not require a Pest Inspection and the borrower still wants to have one completed, the lender must have documentation to support the borrower’s wish. For example, the purchase agreement states the borrower will pay for the Pest Inspection and it is not a requirement on the NOV.

The lender can charge an additional flat charge on construction, alteration, improvement, or repair loans.

- If the lender supervises the progress of construction and/or makes advances to a veteran in excess of 50% of the loan during construction, alteration, improvement, or repair then the lender may charge the veteran up to 2% of the loan amount in addition to the lender's 1% flat charge
- If the lender does not supervise the progress of construction or make advances to a veteran in excess of 50% of the loan during construction, alteration, improvement, or repair then the lender may charge the veteran up to 1% of the loan amount in addition to the lender's 1% flat charge.

Attorney's fees and Brokerage fees may not be charged to or paid by the veteran-purchaser. Also a veteran cannot use loan proceeds to pay penalty costs for prepayment of an existing lien or penalty costs required to discharge any existing liens on the seller's property.

In proposed construction cases in which the dwelling was constructed under HUD supervision, the cost of any inspections or re-inspections must be borne by the builder or sponsor and are not chargeable to the veteran. This includes:

- re-inspections by VA or HUD of onsite or offsite work for which an escrow agreement was established, and
- any additional re-inspections deemed necessary by VA to assure conformity with VA regulations.

### ***Seller Concessions***

A seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide. Seller concessions may not exceed 4% of the reasonable value.

Seller concessions include but are not limited to the following:

- payment of the buyer's VA funding fee
- prepayment of buyer's property taxes and insurance
- gifts such as a television set or microwave
- payment of extra points to provide permanent interest rate buy-down
- provision of escrowed funds to provide temporary interest rate buy-downs, and
- payoff of credit balances or judgments on behalf of the buyer.

Seller concessions do not include:

- payment of the buyer's closing costs, or
- payment of points as appropriate to the market.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 8

## ***Power Of Attorney***

VA will allow a veteran to use an attorney-in-fact to execute any documents necessary to obtain a VA guaranteed loan. This enables active duty service persons stationed overseas, and other veterans who cannot be present to execute loan documents, to obtain VA loans.

### **Requirements**

The veteran must execute a general or specific power of attorney, which is valid and legally adequate. The veteran's attorney-in-fact may use this power of attorney to apply for a Certificate of Eligibility and initiate processing of a loan on behalf of the veteran.

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific power of attorney complies with state law to the extent that:

- the mortgage can be legally enforced in that jurisdiction, and
- clear title can be conveyed in the event of foreclosure.

To complete the loan transaction using an attorney-in-fact VA also requires the veteran's written consent to the specifics of the transaction. This requirement can be satisfied by either:

- the veteran's signature on both the sales contract and the URLA, as long as the veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents, or
- a specific power of attorney or other document(s) signed by the veteran, which encompasses the following elements:
  - Entitlement—A clear intention to use all or a specified amount of entitlement.
  - Purpose—A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing.
  - Property Identification—Identification of the specific property.
  - Price and Terms—The sales price, if applicable, and other relevant terms of the transaction.
  - Occupancy—The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).

### **Veteran's Status as Alive and not MIA**

In addition, at the time of loan closing, the lender must:

- verify that the veteran is **alive**, and, if on **active military duty, not missing in action**, and
- make the following certification:

"The undersigned lender certifies that written evidence in the form of correspondence from the veteran or, if on active military duty, statement of his or her commanding officer (including statement of person authorized to act for said officer), affirmatively indicating that the veteran was alive and, if the veteran is on active military duty, not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed on the veteran's behalf by the attorney-in-fact."

The lender must always verify that the veteran is alive at the time of loan closing, whether or not the veteran is still in the military.

VA may deny guaranty on a loan if the lender failed to properly verify the veteran's status and the veteran was deceased (or MIA) at the time the loan was closed.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 9



### ***VA Funding Fee***

The lender must:

- verify status of any veteran who may be exempt from paying the funding fee
- determine the amount of funding fee owed by a non-exempt borrower
- collect the appropriate fee from all non-exempt borrowers at closing
- remit the funds to VA in a timely manner
- obtain proof of payment of the funding fee, and
- submit proof that the funding fee has been paid or that the veteran is exempt from paying the funding fee to VA with the closed loan package.

A veteran may be **exempt** from the funding fee and a VA Form 26-8937, Verification of VA Benefit-Related Indebtedness must be completed if one of the following apply:

- Veteran receiving VA compensation for service-connected disabilities.
- Veterans would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.
- Surviving spouse of veteran who died in service for from service-connected disability.
- Has received a VA disability benefit in the past.

Please fax your request to:

Finance Section, Support Services Division

(612) 970-5635

If you have any questions call them at: (612) 970-5612 or 5621.

**NOTE\*\*** The Veterans Benefits Act of 2004 expanded the definition of veterans who are in receipt of compensation and thus entitled to a waiver of the VA funding fee. Veterans who are rated eligible to receive compensation as a result of a pre-discharge disability examination and rating will now be considered as receiving compensation as of that date. This means veterans still on active duty awaiting discharge, but who wish to close on a loan before being released from the military, may be entitled to a waiver of the funding fee. Evidence would be documentation from the Veteran's Service Center indicating the borrower has received a BDD rating.

Reference: Lender's Handbook, VA Pamphlet 26-7, Revised, Change 4, Chapter 8

## **VA Funding Fee Schedule**

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### **Funding Fee for Purchase and Construction Loans (including Hybrid ARMS)**

**Effective Date October 1, 2004**

<b>Type of Veteran</b>	<b>Down Payment</b>	<b>1<sup>st</sup> Time Use</b>	<b>Subsequent Use</b>
Active Duty (AD) Veterans of (AD) Service	None	2.15%	3.30%
	5% - 10%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard*	None	2.40%	3.30%
	5% - 10%	1.75%	1.75%
	10% or more	1.50%	1.50%

\*If the person is a reservist called to active duty, AND through that service, they qualify as an active duty person or a veteran of active duty service, the lower % applies.

**Here's an example:** Joe Smith is currently a reservist and has been in the reserves for 10 years (so he would easily meet the service requirements to qualify for VA Home Loan Benefits as a reservist). His unit is called up in support of Operation Enduring Freedom, and he is sent to Iraq, where he serves for 12 months, the full period that he was called to active duty. Once Joe has been on active duty in Iraq for more than 90 days, he would be eligible for benefits as an active duty serviceman.

When Joe returns to civilian life, that service (the 12 months of active duty) could be counted and qualify him for the lower funding fee, as a veteran of active duty military service.

One point to remember: Joe must serve 24 months, **or** the full period that he was called to active duty (unless discharged earlier due to a service connected disability), to be considered a veteran of active duty when he returns to civilian life. In this example, 12 months was "the full period called to active duty." This means he would qualify for the lower funding fee.

### **Funding Fee for Other Loan Types**

**Note:** There is no change in the funding fee amounts for IRRRL s, Native American Direct Loans (NADL), or Loan Assumptions. The funding fee for those loans is the same for active duty personnel, veterans, and reservists, and is as follows:

<b>Type of Loan</b>	<b>1<sup>st</sup> Time and Subsequent Use</b>
IRRRL	0.50%
NADL	1.25%
VA Assumption	0.50%

### ***Funding Fee Payment System (FFPS)***

VA's Funding Fee Payment System is an Internet based data input system where you enter relevant data regarding the payment of a funding fee. This system will allow you to print your own receipt within 24 hours of data entry.

There is a User Guide for this system located at the VA Loan Guaranty National Website:

<http://www.homeloans.va.gov/vaach.htm>

A lender will access the new FFPS through:

<http://www.pay.gov/va>

**(Due to security issues Hyperlink cannot be established.)**

The Lender will register as a new user whereby they will give a variety of data regarding their lender identification number, corporate bank account routing number and address.

Once registered, the lender will input their lender ID and password to formally get into FFPS.

The lender can choose between a variety of functions such as: submit new payment, view previously input data through a variety of search criteria, cancel input, make corrections and view funding fee refunds.

If inputting a new funding fee, the system has an automatic calculator to determine the amount owed.

If you have input a funding fee payment, you will be able to print a receipt directly from this system within 24 hours.

## Obtaining the Loan Guaranty Certificate

### **WBLS**

WBLS is a web-based application that will allow lenders to receive their loan guaranty certificates online and can be accessed through the Veterans Information Portal (please refer to page 2 or 4 for the website address). Lenders will be able to enter loan information online and receive a guaranty within 24 hours of submission. The data required to receive a loan guaranty certificate will be derived from VA Form 26-0286, the Loan Summary Sheet. WBLS displays the Loan Summary Sheet and the user is required to complete the fields. The user will be required to verify certain information in WBLS. In order for a guaranty to be processed in WBLS, a funding fee has to be paid in the pay.gov system. VA requires a three-day turn around time between a payment being processed in pay.gov and the payment receipt being uploaded into WBLS. Also, a record needs to be established in pay.gov for veterans who are exempt from the funding fee. Once the lender receives a guaranty, they will be required to submit the Certificate of Eligibility to the local Regional Loan Center. WBLS will display cases required to be submitted for full review. Lenders can obtain duplicate loan guaranty certificates through WBLS up to 6 months from the date of guaranty.

### ***Modified Guaranty Submission Procedure***

Lenders must submit copies (except Certificate of Eligibility must be original) of only the items listed below (**in the order listed**) when requesting guaranty for all loans except Interest Rate Reduction Refinancing Loans (IRRRLs).

1. VA Form 26-0286, Loan Summary Sheet;
2. Certificate of Eligibility (VA Form 26-8320 or VA Form 26-8320a) or ACE Certificate, if not previously submitted in connection with a prior approval loan application;
3. Print Out of the Funding Fee Receipt issued through the on-line Funding Fee Payment System; VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt;
4. Notice of Value or Certificate of Reasonable Value (VA Form 26-1843), or copy of Master Notice of Value with front page and options pages highlighted to pertain to the specific property, as applicable;
5. VA Form 26-1820, Report and Certification of Loan Disbursement;
6. HUD-1, Settlement Statement;
7. Name and mailing address to be used in requesting file for full review or post audit; and
8. If available, e-mail address, which may be used to request file in lieu of letter.

VA field stations will identify cases selected for full review or other audit purposes within 30 days of receipt by VA. Lenders will then be notified of selected cases by letter or e-mail, if the lender has that capability. Lenders must forward the complete original package to the requesting VA office within 15 days of receiving notification from VA.

(VA field stations may, at their discretion, terminate a lender's participation in this modified guaranty submission procedure if that lender demonstrates an ongoing inability or unwillingness to be timely in responding to requests from VA.)

### **It is absolutely imperative that lenders:**

Complete VA Form 26-0286, Loan Summary Sheet, accurately.

In LAPP cases, send a Uniform Residential Appraisal Report (URAR), with an original set of pictures and other information as required by paragraph 13.07 and lender's Notice of Value to the VA office that assigned the appraiser.

***Required Documents for A VA Full Review Origination Loan Package:***

- Lender's cover or transmittal letter (if used)
- VA Form 26-0285, VA Transmittal List
- VA Form 26-0286, VA Loan Summary Sheet
- VA Form 26-8320 (or 26-8320a), Certificate of Eligibility
- Print Out of the Funding Fee Receipt issued through the on-line Funding Fee Payment System; VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt
- VA Form 26-6393, Loan Analysis
- For AUS cases: Feedback Certificate and underwriter's certification (acceptable variations on the documentation required in items 17, 18, and 19 that follow, and the underwriter's certification, are explained in Section 4.08)
- VA Form 26-1820, Report and Certification of Loan Disbursement
- Lender's Quality Certification
- VA Form 26-8937, Verification of VA Benefit-Related Indebtedness (if applicable)
- HUD-1, Settlement Statement
- Evidence of compliance with CRV/MCRV or LAPP/NOV requirements; for example, final compliance inspection, termite certification, warranty, etc.
- If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reason(s) for late reporting and certifies that the loan is current
- Interest Rate and Discount Disclosure Statement
- VA Form 26-0592, Counseling Checklist for Military Homebuyers, if applicant is on active duty
- Uniform Residential Loan Application (URLA) with revised VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application  
These forms may be signed and dated anytime from the date of initial application to the date of loan closing. These forms must be properly completed and legible, but do not have to be typed
- All original credit reports obtained in connection with the loan and any related documentation
- VA Form 26-8497, Request for Verification of Employment, and other verifications of income such as pay stubs and tax returns
- VA Form 26-8497a, Request for Verification of Deposit, and other related documents. (Alternative documentation: Original or certified true copies of last two bank statements)
- Purchase/earnest money contracts (which includes the Escape Clause, please refer to page 37 of the Training Guide for clarification);
- LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property
- The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR) including all addendum's, photographs and any document(s) revising or correcting the fee appraiser's original URAR (Any other necessary documents)
- Reserve/National Guard Certification Statement
- ARM Disclosure (if applicable)

## ***Required Certifications and Disclosures***

### ***Underwriter's Certification for Automated Underwriting "Accept" or "Approve" loans***

"I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through \_\_\_\_\_ and received an 'Accept/Approve' rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled."

### ***Lender's Loan Current Certification***

If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current. This statement must be submitted with any late request for issuance of a Loan Guaranty Certificate.

### ***Assumption Clause***

"THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE DEPARTMENT OF VETERANS AFFAIRS OR ITS AUTHORIZED AGENT."

The instruments evidencing the loan (note or bond and mortgage or deed of trust, or retail installment contract for manufactured homes) must bear the exact language of this clause

- in a conspicuous position
- in capital letters
- on the first page of the document, and
- in type at least 2-1/2 times larger than the regular type on such page.

### ***Escape Clause***

It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise or be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs. (Authority: 38 U.S.C. 501(a), 3703 (c) (1))

### ***Reserve/National Guard Certification***

Lenders must ask every applicant, whose income is being used to qualify for a loan, if their income is subject to change due to participation in a reserves/national guard unit due to activation. To accomplish this, lenders must obtain a statement, which affirms that a veteran-applicant's status relative to membership in the Reserves or National Guard, has been ascertained and considered. If the answer is yes, lenders must determine what the applicant's income may be if activated. It's important to recognize that activated reservists whose incomes are reduced may be unable to qualify for the loan they're seeking.

## **Frequently Asked Questions**

### **What is the maximum loan amount VA will guarantee?**

VA does not have a maximum loan amount. It is understood that lenders must generally have at least 25% of the loan guaranteed by VA to sell the loan on the secondary market. Based on this factor the following limits **may** apply:

Loan Types	Limit
Purchases or Construction *	\$359,650 including VA's Funding Fee (1/1/2005-12/31/2005)
Regular or Cash-Out Refinance *	\$144,000 including VA's Funding Fee
Interest Rate Reduction Refinance	VA will guaranty 25% of the final loan amount as long as it is in compliance with VA regulations

\* It is suggested that any deviations on loan amounts for purchases or construction and regular or cash-out refinances listed above be discussed with your secondary mortgage market representative prior to closing to ensure that you have the proper coverage needed to satisfy your investors requirements.

### **Can a veteran purchase a home with their fiancé/fiancée using a VA loan?**

The veteran can purchase a home with any individual they choose, however; VA will only guarantee the portion of the loan attributed to the veteran and a spouse. For example, if the veteran intends to purchase a home with a fiancée prior to marriage and will share the same interest in the property, VA would guarantee half of the loan.

### **What is the maximum guaranty on a joint loan for two veterans?**

The use of two certificates does not mean you can double the guaranty or loan amount. As with a non-joint loan, potential maximum guaranty on a joint loan is calculated based on the total loan amount and cannot exceed \$89,912, even if the available entitlement of the veterans involved adds up to a greater amount.

### **Is an off base housing authorization required for veterans currently serving in the Armed Forces to process a loan package?**

This varies from region to region. You should contact your Regional Loan Center, however DD Form 1747 is not required for the states within St. Paul RLC's jurisdiction.

### **Will the VA accept a partial package for credit approval prior to the appraisal being ordered?**

No. The VA requires a complete loan package to underwrite a loan for commitment. A complete list of required package content is contained in Chapter 5.4 in the VA Lender's Handbook on page 5-8 – 5-9.

### **How many properties can a veteran own through VA?**

A veteran can reuse the VA benefit multiple times as long as there is sufficient entitlement to cover the new loan. In addition, the new home purchased must be the primary residence.

### **Can a veteran refinance over the 90% LTV on a cash-out refinance?**

The loan amount may not exceed 90% of the appraised value (referred to as the base loan amount) plus the VA funding fee, plus the cost of any energy efficiency improvements up to \$6,000.

### **How do you process a loan for a veteran who has been rated incompetent?**

Obtain proof that the person signing the documents for the veteran is authorized.

Obtain VA Form 26-8937, Verification of VA Benefit-Related Indebtedness. Submit a complete package (including a NOV) to VA for underwriting prior to the closing.

### **Where can I find information about lender approval, automatic authority or agents?**

All of this information is contained in Chapter One of the VA Lender's Handbook. The Handbook can be found online at [http://www.warms.vba.va.gov/pam26\\_7.html](http://www.warms.vba.va.gov/pam26_7.html). A checklist and specific points to consider when applying for automatic underwriting authority can also be found there.

**If a veteran purchased a home with a VA home loan, paid off the loan and had entitlement restored, are they considered a multiple user?**

Yes, they are considered a multiple user and subject to a higher funding fee unless exempt or have a down payment of 5% or more. Additionally, if the benefit was used before and the borrower is using remaining entitlement to purchase another home, they would be subject to a higher funding fee. Information on funding fees can be found in the VA Lender's Handbook.

**What documentation is acceptable to establish exemption from the VA Funding Fee?**

VA Form 26-8937, Verification of VA Benefit-Related Indebtedness, completed and signed by VA. Veterans who are rated eligible to receive compensation as a result of a pre-discharge disability examination and rating will now be considered as receiving compensation as of that date would need to provide documentation from the Veterans Service Center of a BDD rating.

**Can you give a mortgage for an Interest Rate Reduction Refinance Loan (IRRRL) when the veteran no longer occupies the property?**

Yes, prior occupancy of the property is sufficient. The IRRRL is the only VA loan where the veteran or his spouse does not have to occupy the property as a primary residence when the new loan closes. Specifics on occupancy requirements can be found in the VA Lender's Handbook.

**Is there any exception to the 10-year rule for Interest Rate Reduction Refinance Loans (IRRRL's)?**

The new term for an IRRRL may not exceed the term listed on the note of the original loan being paid in full by more than 10 years and not exceed 30 years plus 32 days.

**Can properties owned by the VA be financed using the veteran's entitlement?**

Yes, VA repossessed properties can be purchased using the veteran's entitlement. If the veteran is applying for a VA-guaranteed loan, VA will issue a Notice of Value (NOV) upon request at VA expense. Since January 2004, the management and sale of VA-owned properties has been contracted out to Ocwen Federal Savings Bank, West Palm Beach, FL. When the lender determines that the property is a VA REO (Real Estate Owned), they should contact Ocwen at 1-800-523-9479 or on-line at [www.ocwen.com](http://www.ocwen.com) for further information.

**Should gift funds be verified in the donor's or applicant's account?**

There is no specific requirement in the VA Lender's Handbook. The lender must obtain a gift letter as a minimum. Many lenders obtain documentation of the veteran's receipt of funds from a donor. This ensures that the veteran did not obtain other financing to cover the closing costs.

**Can the veteran's retirement fund be included as liquid assets?**

Retirement funds that are not available to the veteran cannot be included as a liquid asset. Voluntary contributory retirement plans may demonstrate a veteran's ability to accumulate savings and should be considered a compensating factor. If a veteran is taking a loan against the retirement account to close the loan, the withdrawal must be recorded.

**What landlord experience requirements must be met for the VA to accept rental income for qualification?**

There are many types of rental properties that are specifically discussed in the VA Lender's Handbook. For example: If a veteran is purchasing a multi-family home to occupy as a primary residence, VA requires the lender to document veteran's reserves and previous landlord experience when the rental income is needed to qualify for the home loan. For landlord experience, veteran must have owned a multi-family home, had prior experience managing rental units or other background involving property maintenance/trades and rental or collections experience. If the veteran can support the mortgage without the rental income above requirements are not needed. Any landlord experience or equivalent must be properly documented in the file and unusual situations addressed in the remarks section of the loan analysis form, e.g., the veteran may initiate a contract with a property manager for a year in lieu of the landlord experience. This contract may be noted in the remarks section and could be accepted by the underwriter on a case-by-case basis in lieu of the standard regulation.



**What reserve requirements must be met for the VA to accept rental income for loan qualification?**

If a veteran is purchasing a multi-family home to occupy as a primary residence, the VA requires the lender to document the veteran's reserves and previous landlord experience when the rental income is needed by the veteran to qualify for the home loan. In this instance, 6 months of Principal, Interest, Taxes and Insurance (PITI) reserves must be documented (above and beyond closing costs). If the veteran can support the mortgage without the rental income, neither the landlord experience nor reserve requirements are needed.

**If a veteran is not employed, may the income of the non-veteran spouse be used to qualify the veteran for the home loan?**

If the spouse is on the application, you can use the spouse's income.

**What length of time should the applicant be self-employed to consider it a source of income?**

The VA prefers the applicant to be self-employed for a two-year period. The underwriter may consider a candidate that has a full year of documented self-employment and past regular employment or education in the same line of work. Specifics concerning self-employment income can be found in the VA Lender's Handbook.

**Can the income from a non-qualifying spouse (a spouse not listed on the application) be used to qualify the veteran?**

If the spouse is not on the application you cannot use the income when completing the loan analysis form. However, should the spouse choose to provide documentation concerning his/her employment (e.g. pay stub and W-2), the underwriter could consider removing the spouse from the residual requirement (reduce the number of family members by one). The spouse cannot be forced to provide this data. The underwriter must document the exception in the remarks section of the loan analysis form.

**Can we use income of a trailing spouse?**

Income from a trailing spouse can generally not be considered as the spouse does not have employment in the new location and there is no guarantee of employment when he/she moves. The income may be used to offset the expense of the spouse in his/her current location. Under certain circumstances, the lender may find it possible to document a demand in the new location for the spouse's profession and the underwriter may consider using the income for offsetting some obligations with the potential income. Use of this income in any form should be considered on a case-by-case basis and documented in the remarks section of the loan analysis sheet.

**Is it possible to consider the income of an applicant who has worked in a current job for less than one year, and the current job is not related to his/her previous job?**

In general, the VA would prefer that an applicant had worked on a current job for a year. Consideration may be given to the veteran if there has been a recent job change but is in the same line of work or has specialized training in the field. The underwriter should also consider the employer's evaluation on the probability of continued employment, how much of that applicant's income is needed and if there are any compensating factors. If the veteran does not have a full year on his/her current job (even if it is not related) the VA does not require an automatic denial. Specifics concerning income stability can be found in the VA Lender's Handbook. In all cases employment must be verified for a two-year period and any gaps of employment addressed by the applicant in a written format.

**Can commission income be considered a source of income if the applicant has not been receiving it for two years?**

If applicant hasn't received commission income for a two-year period, the underwriter must carefully review applicant's previous work experience and commission history. If applicant has been receiving commissions for at least one full year and has a background in the field it, may be possible to use that income or offset some debt. If veteran has not been receiving commission income for at least a year, it is unlikely this income can be used.

**What else can be considered to compute net income for a self-employed applicant?**

Depreciation claimed on the tax returns and financial statements can be added to net income to calculate qualifying income. Should the underwriter choose to include additional items in net effective income, these must be specified on the loan analysis form with documentation contained in the file.

**Can a veteran purchase a home that is more than 50 miles away from place of employment and commute?**

Yes, as long as the veteran can commute to his primary residence a VA loan can be used. If the veteran is going to be making an unusually long commute, the underwriter must consider commuting expenses in the loan analysis

**Can Year to Date (YTD) Profit and Loss (P&L) statement earnings be used to derive income for self-employed applicants? If so, must the P&L statement be audited or prepared by an accountant?**

The VA will average the earnings based on a YTD P&L statement if they are consistent with previous earnings. Generally VA does not require financial statements to be audited. Under some circumstances the underwriter may feel it is necessary to obtain an audited financial statement to clarify income or resolve discrepancies. Specifics concerning self-employment documentation can be found in the VA Lender's Handbook.

**Can part-time employment be considered as additional income for an applicant that also has a full-time job?**

The VA requires that overtime, part-time and bonus income is documented as consistent over a two-year period and is likely to continue. This is to show that the income is stable and the veteran is able to work beyond the normal work hours over a long period. If the income has been received consistently for 12 months and is likely to continue, the underwriter may choose to offset debt with this income. Income received for less than a 12-month period may be considered as a compensating factor by the underwriter. Specifics concerning overtime, second job or bonus income can be found in the VA Lender's Handbook.

**What are the requirements to consider disability compensation as a source of income?**

There is no time of receipt required to use disability income. The lender must document that the compensation is currently being received and that this income will continue for a three-year period generally, or be able to draw the conclusion that it will continue in the foreseeable future. In lieu of obtaining this documentation through the insurance company or Social Security Administration, it is possible to obtain a doctor's written confirmation regarding the applicant's probability of returning to work. If the disability will not continue for a three-year period/"foreseeable future," the underwriter may choose to consider the compensation to offset debt. The underwriter's decision should be documented in the remarks section of the loan analysis form. Specifics concerning disability income can be found in the VA Lender's Handbook.

**Can the income of a spouse who is not a US citizen be considered? If so, does the VA require documentation that the spouse has a green card?**

The income of a spouse who is not a US citizen may be considered if the spouse is on the loan application. The VA does not require any documentation that the spouse has a green card. Lenders should check with investors to verify secondary mortgage market requirements.

**What are the requirements for income to be considered if a veteran is employed by a "Temp" agency for more than 9 months with a well-established employer, can the income be used?**

Generally, it would be difficult to consider earnings from Temp agency employment without an established two-year history. If a person is a career Temp agency employee, the overall earnings and employment history should be evaluated. Stability of income and a pattern of earnings may be established after a year. Any income used without a year history should be addressed in the remarks section of the loan analysis form. The underwriter must give careful consideration to these scenarios and address how stability and the average income are derived.

**How long does child support have to continue in order to be considered as income?**

Child support must continue for a three-year period or into the foreseeable future. If the support is going to be for less than three years, the underwriter may consider offsetting the children in the residual guideline if consistent receipt of the support is verified. If the underwriter chooses to offset the children in the residual guideline or offset an intermediate obligation, this should be noted in the remarks section of the loan analysis form. Specifics concerning child support income and the documentation required can be found in the VA Lender's Handbook.

**Does the VA consider childcare costs a debt? If so, what documentation is required?**

Yes, the VA considers childcare expenses as debt. The lender must obtain a letter from the veteran documenting the childcare expense or detailing why no expense is incurred. Ensure that the current daycare provisions will remain logical based on the location of the new home. If applicable, the name and address of the childcare provider should be obtained. This expense should be listed under section D, line 30, job related expense on the VA Loan Analysis.

**Is it required to obligate the veteran for a mortgage that has been assigned to the ex-spouse by the courts?**

No, in general, you do not have to obligate the veteran for a debt that the courts assigned to an ex-spouse - even if that debt is delinquent, however; investor requirements may vary on this issue, therefore; it is always a good practice to verify this requirement with the investor. This is specified in the VA Lender's Handbook.

**For military applicants, do we need to consider separate household expenses if the applicant will be living in quarters and says he will not have any expense?**

If the veteran states that he/she will be living in military quarters at no cost and his/her spouse will be living in the subject property, you do not have to consider separate household expenses. However, if a review of the Leave and Earnings Statement shows a withdrawal for housing or there is any indication in the file of current expenses, clarification should be obtained.

**Can we disregard the veteran's monthly debt if it is to be paid off within the next 5 months?**

The underwriter must consider the following for installments with less than 10 months remaining: The payment must not be so large that it will have a severe impact on the financial situation of the household. The amount of "severe impact" is left to the underwriter's discretion. If the payment is large, the underwriter may consider if there are reserves to cover the debt after closing or a source of income they were unable to use in the analysis. The final determination is the underwriter's. If a debt is not considered and the logic is not highly visible, a notation should be made in the remarks section of the Loan Analysis. In the case of revolving or open-ended accounts with a continued pattern of use, the underwriter must include the regular monthly payment/minimum payment on the Loan Analysis. Specifics may be found in the VA Lender's Handbook.

**If a veteran co-signed a loan, must it be considered as their obligation?**

Not always, the debt may be disregarded if there is proof in the file that the payments are being made by someone else (e.g., a year's worth of canceled checks) and there is no reason to believe this will not continue. This is specified in the VA Lender's Handbook.

**How are student loans considered?**

Student loans must be reviewed on a case-by-case basis. The underwriter must consider the whole scenario and use judgment when making this decision. Factors to be considered include whether the payment is deferred or if there will be new or additional income to offset this expense. Federal regulations require lenders to postpone the student loan program payments of active duty military personnel. Military personnel who have been deployed or mobilized are not required to make student loan payments during their absences. This applies to members of the National Guard and Ready Reserves who have been called to active duty, as well as to active duty personnel whose duty station has been changed as a result of a military mobilization. The regulations apply to student loans made under the Federal Family Education Loan, William D. Ford Federal Direct Loan and Federal Perkins Loan program. Loans deferred for more than a year may generally be disregarded. Should the underwriter choose to exclude a student loan as an obligation, a notation should be made in the remarks section of the Loan Analysis.

**How are 401K loans considered?**

401K loans may be disregarded.

**Are union dues, life insurance or medical insurance included in the debt section of the Loan Analysis?**

No, all of these factors are considered part of the residual requirement. The residual is the net income after shelter, debts and taxes is removed. The debt section covers items the veteran and family needs such as food, clothing, healthcare, gas, etc. Additional information concerning residual income may be found in the VA Lender's Handbook.

**How is child support considered from a debt and credit report standpoint?**

Child support is considered as a debt and must be listed in section D of the Loan Analysis. If late payments appear on the credit report, it should be addressed and considered in the overall credit picture.

**Do unpaid obligations, such as collections and charge-offs, listed on a credit report have to be paid off?****What about judgments or liens?**

The VA does not require charge-offs and collection accounts to be paid off, however; the investor may require them to be paid. The underwriter should obtain the veteran's explanation and supporting documentation if needed. If the accounts are dealt with by a steady repayment plan, this may be considered as a positive factor. If there has not been repayment scheduled, paying them off now does not alter the unsatisfactory credit. Judgments, Federal debts and liens must be paid in full or have a written repayment agreement. Written repayment agreements must be included in the debt section of the loan analysis. This is specified in the VA Lender's Handbook.

**What procedures should I follow if I get a CAIVRS "hit"?**

The following steps should be taken: Contact the veteran or co-applicant regarding the claim to find out if they know about it, or have proof that it has been paid in full/resolved. If the applicant is not aware of the item or needs to resolve it, someone must contact the federal agency listing the debt. A listing of agencies and contact phone numbers are contained in the VA Lender's Handbook. If it is determined that there is no claim against the veteran, the lender should document this by written confirmation from the agency or the lender telephone certification. The Housing and Urban Development's (HUD's) CAIVRS system may not be updated quickly so do not hold up the approval or closing. If there is a loss to the government, the lender must obtain proof of payoff or a written repayment agreement.

**When can a person with a bankruptcy on the credit report apply for a VA loan?**

The date of the discharge is the major determining factor. If a bankruptcy was discharged more than 2 years ago it may be disregarded. If the bankruptcy was discharged between 1-2 years ago, the veteran must have reestablished credit by some means and the cause of the bankruptcy must be documented as having been beyond the control of the applicant (e.g., job loss or medical issues). If the bankruptcy was discharged less than a year ago, it will not generally be possible to ascertain satisfactory credit risk. Marginal cases should be addressed in the remarks section of the Loan Analysis. The guidelines for bankruptcy can be found in the VA Lender's Handbook.

**How do you treat Consumer Credit Counseling Services (CCCS)?**

If an applicant is currently in consumer credit counseling, they must have demonstrated a 12-month history of timely payments and the counseling agency must approve of the new credit. Occasionally an applicant chooses to participate in consumer credit counseling to obtain assistance with finances, even without being behind in payments. In these cases, consumer credit counseling may be considered a neutral or even a positive factor. Do not treat this as a negative credit item if the veteran entered the consumer credit counseling plan before reaching the point of having bad credit. Specifics on consumer credit counseling may be found in the VA Lender's Handbook.

**The veteran has been living with his/her parents and does not have any loans or credit cards. What does the veteran need to provide to be considered credit worthy?**

The underwriter must look at these cases individually and consider if there were any past credit or other compensating factors. The VA does not consider the lack of credit a negative factor. The underwriter may also consider non-traditional sources of credit such as pagers, cell phones, or car insurance.

**Is a veteran eligible for a loan if he/she is behind on child support payments?**

Child support is a credit obligation and if it is in arrears, it must be addressed. The veteran may have a legal action pending. In those cases underwriter must look at documentation and explanation submitted. If documentation supports a veteran's claim that they are not responsible for debt and merely awaiting the court records to be finalized, this would not be considered a derogatory item. All other cases with pending legal action must be looked at on a case-by-case basis. Should you need advice on these, make sure you develop the situation completely then speak with your supervisor or VA Regional Loan Center for guidance. If the veteran is behind due to financial matters, the underwriter must take the following into account: Is there is a repayment schedule? How it will be repaid? Will the cause of the delinquency have an impact on the veteran's proposed loan scenario? The underwriter must exercise good judgment on a case-by-case basis.

**To determine whether the veteran has a satisfactory payment history, how many months must be reviewed?**

Generally VA requires a 12-month history of satisfactory payment. Any late payments within the past year should be developed for an explanation and supporting documentation obtained if needed. The underwriter must make a credit decision based on all the documentation of that particular veteran. Comments should be placed in the remarks section of the Loan Analysis for any loans approved that have late payments in the past year. In marginal cases it may be helpful to review the mortgage or rental history carefully as the applicant's past repayment history could establish how motivated the applicant is to make timely mortgage payments in the future. Information on adverse credit or other scenarios such as bankruptcy and foreclosures may be found in the VA Lender's Handbook.

**Does VA use credit scoring? If so is there a minimum?**

No, the VA does not use credit scoring. The underwriter should review the credit of each veteran individually. The VA does recognize that credit scoring is a standard mortgage industry practice and a high credit score may be listed as one of several compensating factors in the remarks section of the Loan Analysis. Should the underwriter be using an automated underwriting system such as Loan Prospector, they would follow specific guidelines in accordance to the automated underwriting system.

**Can payment plans be used on derogatory credit? If so how long do they have to have been established?**

If there are derogatory credit issues (e.g., a collection account, IRS lien, back due child support), but the veteran has been making payments for a full year, the underwriter may consider this a positive factor. Be sure to list the payment as an obligation. If the borrower has been making payments for less than a year, the underwriter must review all factors for the loan to determine if the overall credit is acceptable. The underwriter must use judgment on a case-by-case basis. These decisions should be documented in the remarks section of the Loan Analysis.

**If a veteran's spouse is not on the application and is receiving child support payments, could these funds be considered to offset the children in the residual?**

Yes, as long as the motivation for payment (e.g., court order) and consistent receipt of the funds are documented.

**Are compensating factors considered for loans with ratios over 41%?**

The VA home loan is a residual driven program. The VA considers the ratio as a secondary evaluator. The underwriter should consider the following: If the residual is in excess of the guideline by more than 20%, a loan with a high ratio but good credit and job stability could be approved. If the loan does not have residual + 20%, the underwriter must review all compensating factors and the decision should be documented in the remarks section of the Loan Analysis. For loans with ratios over 41% and the residual does not exceed the guideline by 20%, the underwriter's supervisor must sign the Loan Analysis concurring with the underwriter's determination. The reasoning for loan approval must be listed in the remarks section of the Loan Analysis. Specifics on ratios, second signatures and compensating factors are found in the VA Lender's Handbook.

**Can non-taxable income be grossed up?**

Non-taxable income can be grossed up for determining the ratio only. Item 39 of the Loan Analysis form must list the actual income, not the grossed up figure. Grossing up 15 – 20 percent would be considered acceptable.

<b>Regional Loan Centers</b>	<b><u>Voice Line</u></b>	<b><u>Fax Line</u></b>	<b><u>Serving These States</u></b>
<b><u>Atlanta RLC</u></b> PO Box 100023, Decatur, GA 30031 Email: <a href="mailto:atlrgy@vba.va.gov">atlrgy@vba.va.gov</a>	888-768-2132	404-929-5401	GA, SC, NC, TN
<b><u>Cleveland RLC</u></b> 1240 East Ninth Street, Cleveland, OH 44199 Email: <a href="mailto:vahomesite@vba.va.gov">vahomesite@vba.va.gov</a> Website: <a href="http://www.vba.va.gov/ro/central/cleve/index.htm">http://www.vba.va.gov/ro/central/cleve/index.htm</a>	800-729-5772	216- 522-3101	NJ, DE, PA, OH, IN, MI
<b><u>Denver RLC</u></b> 155 Van Gorton Street, Denver, CO 80228 Email: <a href="mailto:vavbaden/lgelig@vba.va.gov">vavbaden/lgelig@vba.va.gov</a>	888-349-7541	303-914-5627	AK, CO, ID, MT, NM, OR, UT, WA, WY
<b><u>Houston RLC</u></b> 6900 Almeda Road, Houston, TX 77030 Email: <a href="mailto:houstonlgy@vba.va.gov">houstonlgy@vba.va.gov</a>	888-232-2571	713-794-3812	AR, OK, LA, TX
<b><u>Manchester RLC</u></b> 275 Chestnut Street, Manchester, NH 03101 Email: <a href="mailto:nh_lp@vba.va.gov">nh_lp@vba.va.gov</a> Website: <a href="http://www.vba.va.gov/ro/manchester/lgy/main/loans.html">http://www.vba.va.gov/ro/manchester/lgy/main/loans.html</a>	800-827-6311	603-666-7549	CT, MA, ME, NH, NY, RI, VT
<b><u>Phoenix RLC</u></b> 3225 N. Central Avenue, Phoenix, AZ 85012 Email: <a href="mailto:vavbapho/ro/lgyinq@vba.va.gov">vavbapho/ro/lgyinq@vba.va.gov</a>	888-869-0194	602-640-4863	AZ, CA, NV
<b><u>Roanoke RLC</u></b> 210 Franklin Road SW, Roanoke, VA 24011 Email: <a href="mailto:roanoke.lp@vba.va.gov">roanoke.lp@vba.va.gov</a> Website: <a href="http://www.vba.va.gov/ro/Roanoke/rlc/">http://www.vba.va.gov/ro/Roanoke/rlc/</a>	800-933-5499	540-857-2893	DC, KY, MD, VA, WV
<b><u>St. Paul RLC</u></b> I Federal Drive, St. Paul, MN 55111 Email: <a href="mailto:rlc/lp@vba.va.gov">rlc/lp@vba.va.gov</a> website: <a href="http://www.vba.va.gov/rostpaul.htm">http://www.vba.va.gov/rostpaul.htm</a>	800-827-0611	612-970-5496	IA, IL, KS, MN, MO, ND, NE, SD, WI
<b><u>St. Petersburg RLC</u></b> 9500 Bay Pines Blvd, St. Petersburg, FL 33708 Email: <a href="mailto:fl/homeloan@vba.va.gov">fl/homeloan@vba.va.gov</a>	888-611-5916	727-319-7766	AL, FL, MS
VA Loans in Hawaii (808) 433-0480 and Puerto Rico (787) 772-7313 are processed by VA offices there.			

## **Most Frequently Used VA Forms For Mortgage Loan Origination**

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<b>Form</b>	<b>Title or Description</b>
26-0285	VA Transmittal List
26-0286	VA Loan Summary Sheet
26-0503	Federal Collection Policy Notice
26-0551	Debt Questionnaire
26-0592	Counseling Checklist for Military Homebuyers
26-1802a	HUD/VA Addendum to Uniform Residential Loan Application
26-1805	Request for Determination of Reasonable Value
26-1817	Determination of Loan Guaranty Eligibility- Unremarried Surviving Spouses
26-1820	Report and Certification of Loan Disbursement
26-1880	Request for a Certificate of Eligibility
26-1859	Warranty of Completion of Construction
26-6393	Loan Analysis
26-8261a	Request for Certificate of Veteran Status
26-8497	Request for Verification of Employment
26-8736a	Nonsupervised Lender's Nomination and Recommendation of Credit Underwriter
26-8812	VA Equal Opportunity Lender Certification
26-8923	Interest Rate Reduction Refinancing Loan Worksheet
26-8937	Verification of VA Benefit-Related indebtedness

**The above mentioned forms are available online at:**

<http://www.va.gov/vaforms.htm>

### ***Training Evaluation***

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We want your feedback. Please tell us what you thought of this program and how we can better meet your training needs.

Presenter(s):

Date:

Circle Appropriate Response

1. Have you learned any new information on the VA Home Loan Program?	Yes	No
2. Will the information provided enable you to do your job more effectively?	Yes	No
3. Are you interested in further VA Training?	Yes	No
4. If you answered yes to #3 please enter your company name, a point of contact to include: name, phone number and e-mail address.		
5. If you answered yes to #3 what type of training are you interested in?		
6. Rate <b><i>your</i></b> participation on the scale below with 5 being very active and 1 being very inactive. (Active)    5                      4                      3                      2                      1    (Inactive)		
7. Rate the <b><i>presenter(s)</i></b> effectiveness on the scale below with 5 being very effective and 1 being ineffective. (Effective)   5                      4                      3                      2                      1    (Ineffective)		
8. Remarks/Suggested Improvements:		

*Thank you for your continued support and participation in the VA Home Loan Program!*